

Message Text

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ACTION H-02

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R 051534Z JAN 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 9044

UNCLAS SECTION 1 OF 2 KINGSTON 0075

FOR H AND ARA/CAR (MR. SURBER)

E.O. 11652: N/A
TAGS: EINV, JM
SUBJECT: CONGRESSIONAL QUERY CONCERNING US INVESTOR PROBLEM

1. H PLEASE PASS FOLLOWING TELEGRAPHIC LETTER TO CONGRESS-
MAN GUY VANDER JAGT.

2. BEGIN TEXT: DEAR CONGRESSMAN VANDER JAGT:

THANK YOU FOR YOUR LETTER OF DECEMBER 8 (RECEIVED ON DEC 28) REGARDING THE SALE OF THE INTEREST OF ROSE HALL LTD. IN THE HOLIDAY INN AT MONTEGO BAY, JAMAICA, BY THE CHASE MERCHANT BANKERS JAMAICA LTD. WE HAVE CALLED ON THE MANAGING DIRECTOR OF THE BANK, MR. EDWARD BROWN, AND OBTAINED HIS ACCOUNT OF THE FACTS.

ACCORDING TO MR. BROWN:

A. MR. JOHN W. ROLLINS, ON BEHALF OF ROSE HALL LTD., NEGOTIATED A LOAN OF \$3.0 MILLION FROM CHASE MERCHANT BANKERS JAMAICA LTD. IN MAY 1974. HE PLEDGED AS SECURITY 3,000 ACRES OF RAW LAND AND THE SHARES IN THE HOLIDAY INN OWNING COMPANY WHICH OWNS THE HOTEL LEASED HOLIDAY INN. MERCHANT BANKERS DID NOT GET A FIRST MORTGAGE ON THE HOTEL ITSELF. A FIRST MORTGAGE WAS HELD BY THE BANK OF NOVA SCOTIA FROM WHICH ROSE HALL
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LTD. HAD BORROWED ANOTHER \$6.5 MILLION.

B. ACCORDING TO MR. BROWN, THE \$3 MILLION LOAN WAS NOT INVESTED IN JAMAICA IN ITS TOTALITY: \$2 MILLION WERE IMMEDIATELY TAKEN OUT OF THE COUNTRY. EVEN MORE IMPORTANTLY, THE LOAN, MADE IN MAY OF 1974, WAS ALREADY IN DEFAULT IN SEPTEMBER OF THAT YEAR.

PAYMENTS WERE ALMOST ALWAYS IN ARREARS AND WERE MADE ONLY AFTER CONSIDERABLE PRESSURE. PAYMENT ON PRINCIPAL WAS ONLY PARTIAL: \$70,000 WERE REPAID OUT OF \$187,000 OWED. INTEREST WAS PAID UNTIL MARCH 31, 1976 -- ALWAYS IN ARREARS AND UNDER PRESSURE -- AND WAS STOPPED AT THAT TIME. MR. BROWN FEELS THAT HIS BANK WAS VERY PATIENT WITH MR. ROLLINS, WAITING TWO YEARS BEFORE SELLING THE COLLATERAL.

C. IN MR. BROWN'S VIEW, THERE CAN BE NO QUESTION WITH REGARD TO THE BANK'S LEGAL RIGHT TO SELL THE PROPERTY PLEDGED AS COLLATERAL. MR. ROLLINS SUED TO OBTAIN AN INJUNCTION AGAINST THE SALE OF THE SHARES AND THE LAND. HE CHARGED COLLUSION BETWEEN CHASE MERCHANT BANKERS AND THE BUYER OF THE PROPERTY, ETC., THE URGAN DEVELOPMENT CORPORATION OF THE GOVERNMENT OF JAMAICA. MR. ROLLINS LOST HIS SUIT AS THE COURT FOUND NO EVIDENCE OF COLLUSION. THE MATTER IS NOW UNDER APPEAL.

D. WHILE MR. BROWN IS EMPHATIC THAT THERE CAN BE NO QUESTION ABOUT THE BANK'S LEGAL RIGHTS TO SELL THE PROPERTY PLEDGED AS COLLATERAL, HE CONCEDES THAT THE POINT OPEN TO CHALLENGE IS WHETHER THE PROPERTY WAS SOLD AT A FAIR PRICE. HE AGREED THAT THE GOVERNMENT OF JAMAICA ORIGINALLY ANNOUNCED ITS INTENTION

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TO PURCHASE THE HOTEL FOR \$13 MILLION. HOWEVER, MR. BROWN CLAIMS THAT THIS OFFER WAS MADE ON THE BASIS OF A MISREPRESENTATION OF FACT BY MR. ROLLINS AND WAS WITHDRAWN WHEN THE TRUE FACTS ACME TO LIGHT. SPECIFICALLY, MR. ROLLINS CLAIMED THAT THE HOLIDAY INN (WHICH WAS OPERATING THE HOTEL) WAS "A HAPPY AND WILLING TENANT." HE CLAIMED THAT THE HOTEL WAS OPERATING PROFITABLY AND MADE VERY OPTIMISTIC PROJECTIONS OF ITS PROFIT-AND-LOSS STATEMENTS. EHEN THE GOVERNMENT ASKED AND OBTAINED THE FIGURES ON ACTUAL OPERATIONS, THE LATTER INDICATED THAT THE HOLIDAY INN WAS OPERATING AT A LOSS. IN FACT, THE HOLIDAY INN ADVISED THE GOVERNMENT THAT EHE MANAGEMENT WOULD USE ANY LEGAL MEASURE TO ALLEVIAT THE FINANCIAL BURDEN OF THE LEASE.

E. THE MARKET FOR THE PROPERTY WAS IN FACT VERY POOR. MR. BROWN STATED THAT MR. ROLLINS MADE MANY ATTEMPTS TO SELL, BUT COULD FIND NO BUYER. THE ECONOMY WAS NOT DOING WELL, THE TOURISM INDUSTRY WAS DEPRESSED, BANKS WERE NOT ABLE TO PROVIDE FINANCING AND LOCAL ENTREPRENEURS GENERALLY DID NOT HAVE THE CAPITAL.

AS A RESULT OF ALL THESE FACTORS, MR. BROWN FEELS THAT THE \$8.5 MILLION OBTAINED FOR THE SALE OF THE SHARES (PLUS \$1.0 MILLION FOR THE LAND) WAS THE BEST THAT COULD BE OBTAINED UNDER THE CIRCUMSTANCES.

F. IT WOULD BE MISLEADING TO INFER THAT CHASE MERCHANT BANKERS OBTAINED \$9.5 MILLION IN SALES PROCEEDS FOR ITS \$3 MILLION LOAN. AS NOTED ABOVE, \$6.5 MILLION (PLUS INTEREST) WAS OWED TO THE BANK OF NOVA SCOTIA, A REPAYMENT OBLIGATION THAT MUST BE ASSUMED BY THE PROPERTY'S NEW OWNER, THE URBAN DEVELOPMENT CORPORATION. ROSE HALL LTD. HAD DEFAULTED ON ITS NOVA SCOTIA LOAN JUST AS ON ITS LOAN FROM CHASE MERCHANT. MR. BROWN ESTIMATES THAT CHASE MERCHANT

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LOST ABOUT \$200,000 ON ITS LOAN AS THE PROCEEDS FROM THE SALE OF COLLATERAL DID NOT COVER ALL OBLIGATIONS OUTSTANDING.

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FOR H AND ARA/CAR (MR. SURBER)

3. I CAN DO NO MORE AT THIS STAGE THAN TO GIVE YOU THE VERSION OF THE MANAGEMENT OF CHASE MERCHANT. I CANNOT VOUCH THAT IT IS CORRECT IN ALL ITS DETAILS. THE COURTS WILL HAVE TO DECIDE. I HAVE NO REASON TO DOUBT THAT A FAIR AND IMPARTIAL JUDGMENT WILL BE RENDERED IN THE CASE. AS TO YOUR CONCERN THAT "THE GOVERNMENT OF JAMAICA WILL BE UTILIZING U.S.

FUNDS TO CONSUMATE PURCHASE OF THE HOTEL," I CAN
ASSURE YOU THAT THERE IS NO POSSIBILITY WE ARE AWARE
OF THAT ANY U.S. GOVERNMENT FUNDS WILL BE USED FOR
THAT PURPOSE.

4. I DO HOPE THE ABOVE HELPS IN SOME DEGREE TO
SORT OUT WHAT IS INDEED A VERY COMPLICATED ISSUE. IF
I CAN BE OF ANY FURTHER ASSISTANCE, PLEASE DO NOT
HESITATE TO GET IN TOUCH WITH ME. SINCERELY,
FREDERICK IRVING, AMBASSADOR. END TEXT.
IRVING

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